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Joint Inspection Unit

Procurement practices within the United Nations system

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the report of the Joint Inspection Unit entitled "Procurement Practices Within the United Nations System", JIU/REP/2004/9.

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PROCUREMENT PRACTICES WITHIN THE UNITED NATIONS SYSTEM

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ACRONYMS

ACC	Administrative Committee on Coordination (now CEB)
ACABQ	Advisory Committee on Administrative and Budgetary Questions
CEB	United Nations System Chief Executives Board for Coordination (formerly ACC)
CRiSPS	Centre for Research in Strategic Purchasing and Supply (of the University of Bath School of Management)
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
HLCM	High-Level Committee on Management (CEB body)
IAEA	International Atomic Energy Agency
IAPSO	Inter-Agency Procurement Services Office
IAPWG	Inter-Agency Procurement Working Group
ICAO	International Civil Aviation Organization
ICT	information and communication technology
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMO	International Maritime Organization
ITU	International Telecommunication Union
JIU	Joint Inspection Unit
JPS	Joint Purchase Service
OECD	Organisation for Economic Cooperation and Development
OIOS	Office of Internal Oversight Services
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNOG	United Nations Office at Geneva
UNON	United Nations Office at Nairobi
UNOV	United Nations Office at Vienna
UNOPS	United Nations Office for Project Services
UNPD	United Nations Procurement Division
UPU	Universal Postal Union
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY: OBJECTIVE, CONCLUSIONS AND RECOMMENDATIONS

OBJECTIVE: To identify opportunities for increasing procurement efficiency and effectiveness in the United Nations system, especially through productivity enhancement, improved cooperation and coordination and technological innovations.

MAIN FINDINGS AND CONCLUSIONS

1. In reviewing the state of procurement services and practices in the United Nations system, the Inspector finds that the procurement function has evolved over the past ten years from a relatively obscure administrative activity to a financially high-profile and high-risk function. As evidence, procurement in 2002 represented about US$ 4.6 billion or 37 per cent of the organizations' combined regular and extrabudgetary resources. At United Nations Headquarters, the growth in procurement activities was accompanied by a programme of procurement reform mandated and guided by the General Assembly itself since the mid-1990s and complemented by the strengthening of common procurement arrangements covering the United Nations and its funds and programmes headquartered in New York. While these measures to some extent helped streamline procurement operations at United Nations Headquarters, they are, however, still to percolate down to other major duty stations, including field offices, and to the collective membership of the Inter-Agency Procurement Working Group (IAPWG). The introductory and overview chapters of the report discuss these and related issues, and conclude on the need to rationalize, in particular the procurement of common user items, and to increase outsourcing of procurement tasks among the organizations as a means of reducing overlap and competition within the international procurement community.

2. Chapter II focuses on the fundamental issue of the cost-effectiveness of the organizations' procurement services. An analysis of the staffing and costs of these services compared to their annual turnover shows that average staff productivity, for example, varies widely across the organizations to an extent that may not be justified by their constitutional or structural specificities. The Inspector draws the conclusion that IAPWG, the only inter-agency procurement forum involving virtually all the organizations, has to date done little or no work in researching and developing procurement performance benchmarks or efficiency and quality paradigms that should guide performance of the procurement function within the United Nations system, with special attention being paid to procurement facilities and practices at field level. Consistent with injunctions by the General Assembly regarding the desirability of measuring procurement performance, the Inspector identifies some of the techniques that should be employed to that end.

3. As found in chapter III, the previously mentioned shortcomings in the modernization of the procurement function are also reflected in the infinitesimal amounts the organizations earmark for the training of their procurement staff, who account on average for over 95 per cent of total procurement overhead and are therefore the main factor driving procurement productivity and quality outcomes. Although procurement staff training has been one of the recurrent items in General Assembly resolutions on procurement reform in the United Nations, and notwithstanding some improvements by the United Nations Procurement Division, the procurement training function remains by and large a haphazard undertaking at cross-organizational level. The commendable initiative of IAPWG several years ago to develop a joint training initiative and strategy not only remains to be funded and implemented but also seems to have been overtaken by events, notably the technological innovations and training services the Inter-Agency Procurement Services Office (IAPSO) has introduced in the meantime. Although it would seem that the project proposal has recently been revised to focus more on a certification system for procurement officers, the Inspector still sees the need to increase budget allocations for training, pool resources beyond contributions in kind, and continue efforts to mobilize extrabudgetary income from all appropriate sources. In this context, increasing emphasis should be placed on training in electronic procurement (e-procurement) methods and on technical assistance in support of capacity-building for public procurement agencies in the developing countries and countries with economies in transition.

4. Yet another major finding, elaborated in chapter IV, is that the organizations' procurement activities currently do not have the benefit of central policy guidance despite the steady significant growth in their financial value over the years. Although the High-Level Committee on Management (HLCM) of the United Nations System Chief Executives Board for Coordination (CEB) decided in June 2003 to request IAPWG to report to it on procurement matters, no real attention was paid previously by ACC to procurement activities in the same way it coordinated approaches to human and financial resources management or information and technology issues. Partly as a result of this policy, the harmonization of procurement policies, procedures and practices across the organizations is still to make decisive headway. While some recent improvements must be acknowledged, for example in the development of common approaches and tools such as the Lead Agency Concept or Common Supply Database and Portal, both the IAPWG mechanism and IAPSO, which serves as its secretariat, have ill-defined status and suffer from an identity problem. IAPWG remains an informal forum without policy or legislative oversight. Similarly, IAPSO remains more a United Nations Development Programme (UNDP) entity than an inter-agency procurement facility since it is not used as such by the United Nations procurement system. The Inspector concludes that the terms of reference of IAPWG should be formalized by a decision of the General Assembly and that it should come under closer policy guidance of HLCM. Additionally, and in keeping with General Assembly resolutions on common administrative services, the Secretary-General should review the feasibility and efficiency benefits of further consolidating the overhead structures and costs of procurement services at Headquarters, strengthening collaboration and avoiding overlap between the United Nations Office for Project Services (UNOPS) and IAPSO, including their possible merger, and fostering common procurement services in Geneva, Vienna and Nairobi and in field locations.

5. E-procurement, discussed in chapter V, is seen by virtually all the organizations as offering potential benefits for the modernization of the procurement function and bringing it to world-class standards. The benefits include enhanced efficiency and effectiveness resulting from a significant reduction of transaction costs and process time cycles, greater transparency and integrity in procurement proceedings, scaling performance from tactical to strategic focus, fewer human errors, improved job satisfaction and staff motivation, etc. Major constraints to be overcome, as reported by the organizations, include the lack of a legal and procedural framework for e-procurement and more generally, the still limited confidence in the reliability of electronic transactions in some organizations, as exemplified by the non-acceptance of electronic signatures, differences in information and communication technology systems and infrastructures, ill-adapted skills of procurement staff, limited budget provisions for e-procurement, etc. With the exception of IAPSO, which has automated all its procurement stages and processes thanks to its UNWebBuy e-commerce platform, all the organizations are still more or less at the e-procurement start line. This fact should enable the organizations to learn from each other by adopting deliberate inter-agency cooperative strategies in the development of their e-procurement systems, making optimal use of the experience and expertise already acquired in this area by IAPSO. The present report offers a road map to that end.

6. In the concluding chapter, the Inspector discusses the ways and means by which the organizations could use the procurement function as a development tool in the recipient countries, using a two-track approach. In the first lane, the organizations could borrow a leaf from UNHCR's procurement policy, which aims deliberately to stimulate and strengthen the supplier markets and institutions of local communities hosting refugees without prejudice to the integrity of basic procurement standards and procedures. The requirement for major United Nations system contractors to be encouraged to subcontract some of their procurement activities to firms in recipient countries could also fall in this first track. In the second and more important lane, the organizations are urged to develop capacity-building technical assistance programmes in support of public procurement agencies in the recipient countries as part of good governance and public integrity programmes. The Inspector concludes that such programmes be developed in close cooperation with the World Bank and the Organisation for Economic Cooperation and Development (OECD), heavily involved in procurement capacity-building programmes in the recipient countries, as well as with United Nations system entities that have acquired experience in this area, such as the International Labour Organization (ILO) Turin Centre and IAPSO.

RECOMMENDATIONS

The Procurement Working Group of the Task Force on Common Services at United Nations Headquarters

Recommendation 1

The Secretary-General of the United Nations should continue to evaluate the results achieved to date by the Procurement Working Group of the Task Force on Common Services at Headquarters and other locations, including findings on procurement performance benchmarks and other best practices resulting from procurement reforms at Headquarters and other locations; the evaluation report should be discussed by HLCM and IAPWG members, which in turn should adopt recommendations for its procurement community as appropriate (para. 12).

Rationalization of procurement practices

Recommendation 2

IAPWG should adopt, approve and implement the concept of lead agency and promote a division of labour among the organizations, aimed at further rationalization of procurement practices by its members. The emphasis as may be applicable on increased consolidation of procurement overhead costs and structures within the United Nations system, in order to enhance division of labour among its members, reduce duplication in the procurement of common user items, and maximize the use of organizational core competencies, including the lead agency concept (para. 20).

Establishment of a unified system of reporting and accountability for procurement services

Recommendation 3

The executive heads of the International Civil Aviation Organization (ICAO), ITU and the Universal Postal Union (UPU) should bring their separate specialized procurement units under a single system of accountability for procurement operations, in particular in the case of relatively low procurement volumes (para. 29).

Staff with legal background

Recommendation 4

All executive heads should ensure that their respective procurement services have adequate and timely legal support, and that some of their existing staff receive training in the legal aspects of procurement (para. 31).

Procurement training initiative

Recommendation 8

Notwithstanding the agreement reached at the 29th IAPWG meeting to focus on the project proposal entitled "Common Procurement Training Initiative for the United Nations" on a certification system for procurement officers, active consideration should continue to be given to: (a) where applicable, further increasing the procurement training budgets of the organizations; (b) integration, as far as practicable, of specialized procurement training initiatives and capacities available within the United Nations system; (c) expanded training in e-procurement methods in the context of recommendation 10(c) below; and (d) development of a technical assistance strategy supporting capacity-building in public procurement agencies in the recipient countries coupled with mobilization of resources to this end (para. 38).

Procurement policy and procedures manuals

Recommendation 6

(a) The executive heads of the organizations should ensure that procurement manuals exist in the working languages of the secretariats of the organizations in line with the relevant multilingual policies of the organizations concerned, in order to foster the integrity of the procurement process in all field offices (para. 43).

(b) IAPWG should arrange for the further development of its existing common procurement guidelines into a generic system-wide policy and procedures manual to serve as a benchmark which articulates common procurement principles and stages as well as standard quality outcomes, and significantly streamlines procurement procedures to be applied individually and collectively at all duty stations (para. 45).

The Inter-Agency Procurement Working Group (IAPWG)

Recommendation 7

(a) In view of the significant growth in procurement activities and the resultant need for more cost-effective arrangements and practices within the United Nations system, the General Assembly should request the Secretary-General, in his capacity as Chairman of CEB, to negotiate the formalization of the mandate of the inter-agency cooperation and coordination role of IAPWG and require it to report annually to the General Assembly through HLCM and to make action-oriented proposals on continuous improvements in the management, performance measurement and coordination of procurement services, in the light of the findings and recommendations of the present report (para. 51).

(b) IAPWG should interact more regularly with other entities in the public and private procurement sector as well as with relevant academic bodies in order to keep abreast of practices, innovations and trends outside the United Nations system (para. 50(e)).

(c) Strengthening of common procurement services and other cooperative arrangements at different duty stations should be pursued more deliberately as a regular item on the agenda of IAPWG meetings (para. 50(f)).

(d) In conjunction with recommendation 1 above, the procurement reform experience of various organizations that have implemented reforms in recent years should be shared in detailed and systematic fashion with the other organizations (para. 56).

Common procurement services

Recommendation 8

In accordance with relevant General Assembly resolutions on common services within the United Nations system, the Secretary-General should undertake as soon as possible, with the assistance, if necessary, of an external consultant specializing in corporate mergers, a detailed review of the feasibility and efficiency benefits of the following measures:

(a) Further strengthening of procurement reform at Headquarters by establishing a central procurement facility at Headquarters by 2010 with a view to providing energetic leadership and a frame of reference for similar streamlining of procurement activities at other duty stations, especially in the field (para. 62-63);

(b) As an intermediate stage to that goal, consolidation of the procurement overhead structures and costs of the funds and programmes based at Headquarters (para. 62);

(c) Ways and means of strengthening collaboration and avoiding overlap between UNOPS procurement service and IAPSO, including the option of merging the two entities, while ensuring that,

in the event of a merger, the inter-agency services currently provided by IAPSO will be continued by a successor entity;

(d) Should UNOPS and IAPSO be maintained as separate entities, UNDP should continue to cover the full costs of the inter-agency services provided by IAPSO (para. 59);

(e) Extending, as appropriate, the measures recommended under (a) above to other duty stations, especially the United Nations Office at Vienna, the United Nations Office at Nairobi and field duty stations (para. 70).

Electronic procurement methods

Recommendation 9

The executive heads should ensure that the development of e-procurement solutions in their respective organizations is guided by the following basic principles, inter alia:

(a) The existence of a legal and procedural framework;

(b) Inter-agency cooperation and coordination;

(c) The promotion of an incremental approach to the establishment of e-procurement; and

(d) The development of a relevant new skill set through training and retraining programmes (para. 83).

Capacity-building in public procurement agencies in the recipient countries

Recommendation 10

In view of the growing importance of the issue of government transparency in public procurement in the context of World Trade Organization agreements, as recently endorsed by General Assembly resolution 55/247 of 1 May 2001 on procurement reform, the executive heads of the organizations should, upon request, develop technical capacity-building support in their procurement portfolio programmes to support capacity-building in public procurement agencies in the recipient developing countries so that they can participate actively and strengthen their abilities to participate in procurement. The programmes in question should aim to complement ongoing activities in this area of the World Bank, OECD, ILO Turin Centre and IAPSO, among others (para. 91).

INTRODUCTION

1. Procurement activities within the United Nations system accounted for US$ 4.6 billion[1] in 2002, or about 37 per cent of the combined regular and extrabudgetary resources of the organizations. If account is also taken of public procurement for development projects financed by the multilateral financial institutions, in particular the World Bank Group and the International Fund for Agricultural Development (IFAD), the value of procurement business represented by the international multilateral system approaches US$ 30 billion per annum.

2. Public procurement for projects financed by the multilateral financial institutions will remain outside the scope of the present report, nonetheless the above figures highlight the importance of the subject and of the procurement function within the United Nations system. As will be seen in the next chapter, however, the scope and value of procurement activities vary significantly across the organizations and subgroups of the United Nations system and reflect specificities of the organizations' mandates. Procurement constitutes a strategic function of the United Nations and its funds and programmes, which in 2002, together accounted for 85 per cent of total procurement expenditure of the organizations. The combined value for the specialized agencies (excluding the World Bank Group and IFAD) was just over 12 per cent. Each of the two subgroups of the system exhibits equally differing procurement scales among its components.

3. Notwithstanding the differences in procurement volumes and organizational mandates, the present report, which was suggested to the Joint Inspection Unit (JIU) by the World Food Programme (WFP), is relevant to all the organizations of the system. It focuses on strategic issues most likely to contribute to enhancing the cost-effectiveness of the procurement process within and among the organizations, namely cooperation and coordination, electronic procurement and capacity-building. Although the Inter-Agency Procurement Working Group (IAPWG) has addressed these issues on a system-wide basis in the past several years, overall results have been rather mixed. There still is room for improvement in the harmonization of practices, application of electronic solutions, performance measurement and benchmarking, and development of the professional expertise of in-house procurement staff and of client organizations in the developing countries and countries with economies in transition.

4. Following upon the recommendations of a 1994 report by the High-Level Group of Experts on Procurement, which conducted an in-depth review of procurement practices of the United Nations, the Organization has pursued intensive procurement reform almost on a continuous basis over the past ten years,[2] under the close guidance of the General Assembly and the Advisory Committee on Administrative and Budgetary Questions (ACABQ). In addition, the Board of Auditors and the Office of Internal Oversight Services (OIOS), which identified the procurement function as a high-risk area, periodically review the reform process and audit procurement practices of the funds and programmes. These reforms were complemented by initiatives aimed at strengthening cooperation and coordination among the organizations based in New York in the context of the Common Services Procurement Working Group of the Task Force on Common Services, established at Headquarters in 1997. While these endeavours have significantly improved the procurement operations of the United Nations, the reforms were mostly confined to the United Nations.

5. Similarly, internal and external reviews conducted in the past few years on the role of the Inter-agency Procurement Services Office (IAPSO),[3] extended neither to other procuring entities of the system, nor to cooperative arrangements at the different duty stations at global and field levels, nor for that matter to the mandate of IAPWG serviced by IAPSO. For its part, JIU has in the past several years issued two reports on

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[1] See IAPSO procurement statistics at www.iapso.org.

[2] The Secretary-General has periodically submitted reports on procurement reform to the General Assembly, in particular, documents A/C.5/51/9, A/52/534, A/53/271/Add.1, A/54/866, A/55/127, A/55/746 and A/57/187.

[3] See report of the Sub-Working Group on The future Role of IAPSO to the 27th IAPWG meeting in Havana, Cuba, 2001, and the report entitled Strategic Positioning, Realignment and IAPSO's Inter-Agency Role by COWI Consultants, April 2001.

outsourcing in the United Nations system,[4] which however covered only one aspect of procurement, namely subcontracting of some functions to commercial service providers.

6. In the light of the foregoing, this report is probably the first attempt in many years to review the procurement business of the organizations in a comprehensive and integrated perspective, albeit primarily focusing on those aspects mentioned in paragraph 3 above. The objective of the present report is to identify opportunities and avenues for increasing procurement efficiency and effectiveness through more effective coordination measures, including the sharing of information and best practices, introduction of technological innovations and staff performance enhancement. The report also discusses the important issue of technical assistance to recipient client countries and organizations as part of good governance programmes.

7. In preparing the report, the Inspector attended, as observer, the 28th meeting of IAPWG held in May 2003 in Warsaw, which provided an opportunity to follow live exchanges among procurement professionals on the wide range of topics on the agenda and to interact with virtually all the heads of procurement services of the organizations. After that, the Inspector visited most of the organizations to obtain more specific information concerning their procurement policies and practices. These visits were further complemented by a questionnaire sent to the organizations covering the areas of emphasis retained for the report. The Inspector expresses his appreciation to members of IAPWG and other officials of the organizations for their cooperation in the preparation of this report.

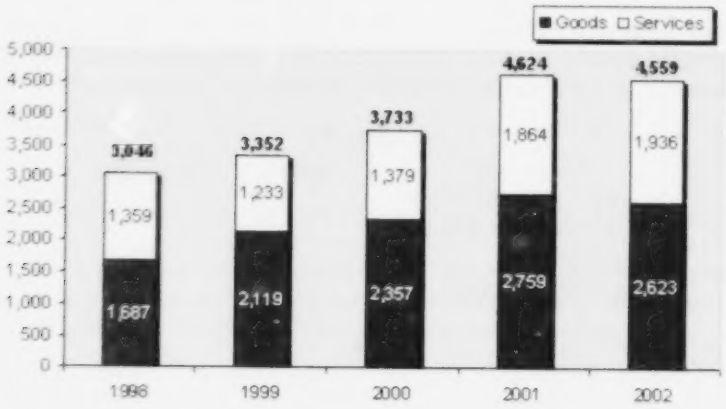
[4] See The Challenge of outsourcing for the United Nations system (JIU/REP/97/5) and Management audit review of outsourcing in the United Nations and United Nations funds and programmes (JIU/REP/2002/7).

I. OVERVIEW

8. This chapter, which is based on IAPSO procurement statistics and on an analysis of replies to the JIU questionnaire for this report, provides an overall picture of the organizations' procurement operations in 2002, in particular with respect to the aggregate resources involved and trends; distribution of procurement expenditures among the organizations and clusters of organizations; geographical distribution; common and specialized items procured; outsourcing of the procurement function; and main clients served. This overview provides the background to a more focused review in subsequent chapters of the report.

A. Aggregate procurement value and trends

Figure 1: Total procurement of goods and services, 1998-2002
(Millions of US dollars)



Source: IAPSO

9. Total procurement value by the organizations of the system increased by about 49 per cent from 1998 to 2002. The procurement of services and of goods contributed to that increase by 42 and 55 per cent respectively. This trend seems to reflect increased procurement activities by United Nations entities in response to expanding peacekeeping and humanitarian operations in the Balkans, Afghanistan and Iraq, among others. As these operations stabilize over the medium to long term, the volume of procurement is likely to remain more or less constant or to decline.

B. Distribution of procurement activities

10. As Table 1 suggests, procurement business is largely concentrated within the United Nations family itself. For example, the United Nations Children's Fund (UNICEF) alone procures more goods and services than all the specialized agencies combined, while the volume procured by the United Nations Secretariat is almost double the figure for the specialized agencies. The implication of this concentration of procurement power may be that cost-effective reforms, while concerning all organizations of the system, should perhaps be in the first instance concentrated on United Nations entities, which are governed by the same Charter, the same General Assembly and Secretary-General. Achieving cost-effective procurement solutions within the United Nations family itself should facilitate extension of such solutions to other parts of the system. To some extent, this approach has been tried in the last several years by United Nations entities, thanks in particular to the results of the Procurement Working Group of the Task Force on Common Services established at United Nations Headquarters in 1997, which linked up with some IAPWG members.

Table 1: Comparative procurement volumes of United Nations entities and specialized agencies and the International Atomic Energy Agency (IAEA) in 2002[5]

(Millions of US dollars)

Entity	Spend	Percentage	Agency	Spend	Percentage
United Nations[6]	941	26.4	FAO	149	23.3
WFP	837	23.5	WIPO	149	23.3
UNDP[7]	795	22.3	WHO	77	12.0
UNOPS	300	8.4	IAEA	70	11.0
UNICEF	352	10.0	UNIDO	51	8.0
UNFPA	113	3.2	ILO	47	7.4
IAPSO	82	2.3	ICAO	39	6.1
UNHCR	73	2.0	UNESCO	29	4.5
UNRWA	68	1.9	ITU	12	1.9
			IMO	10	1.6
			WMO	4	0.6
			UPU	2	0.3
Total	**3 561**	**100.0**	**Total**	**639**	**100.0**

SUMMARY

Sub-groups	Spend	Percentage
United Nations Secretariat	941	22.4
United Nations funds and programmes	2620	62.4
Specialized agencies	639	15.2
Total	**4200**[8]	**100.0**

11. As observed in one of the Secretary-General's progress reports on common services, the Working Group on Procurement, which comprises all United Nations entities with headquarters in New York (the Secretariat, UNDP, UNICEF, UNOPS and UNFPA), developed a number of common procurement tools (common financial regulations and rules for procurement; common contracting document formats; common performance indicators; procurement training and ethics; common vendor database; common coding system; generic long-term agreements; etc) and joint purchasing arrangements for office supplies, travel agency services and freight-forwarding services.[9] Although these results have been shared with other IAPWG members and some of the issues remain on the agenda of IAPWG meetings, they do not appear as yet to have generated a momentum of comprehensive reform within the procurement community of the United Nations system comparable to the procurement reforms promoted by the Working Group at United Nations Headquarters.

12. This outcome may have to do with limitations inherent to IAPWG, as discussed further on in the report. Another reason may be the lack of an evaluation of the concrete beneficial impact of the results achieved so far by the Procurement Working Group at Headquarters, such as savings on head count and transaction costs,

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[5] Data from IAPSO procurement statistics (www.iapso.org), updated in most cases by data supplied to JIU for this report.

[6] UNPD and other Secretariat entities.

[7] Excluding IAPSO.

[8] This total differs from Figure 1, firstly because data for some organizations not participating in JIU (e.g. Pan American Health Organization or WTO) have been excluded and secondly because the data some organizations reported to JIU for their 2002 procurement did not match IAPSO data.

[9] A/55/461, paragraphs 36 to 42.

shorter process time cycles, integrated procurement assets, or more effective service contract management. These benefits should be the subject of an evaluation, including findings on procurement performance benchmarks and other best practices resulting from procurement reforms at United Nations Headquarters and other duty stations as appropriate. The evaluation report should be prepared with the involvement of professionals from the private sector supply industry and discussed by the entire IAPWG membership, which in turn should adopt recommendations for its procurement community as a whole.

C. Procurement from programme countries

13. In response to periodic injunctions by the General Assembly for increased procurement from developing countries and countries with economies in transition,[10] the organizations as a whole have endeavoured to widen their sources of procurement as much as possible, as shown in Figures 2 and 3 below. IAPWG meetings held every two years in the developing countries and the business seminars organized in the developing regions by the United Nations Procurement Division (UNPD) appear to have afforded opportunities for increased participation of recipient countries in the procurement business of the United Nations system. However, organizations of the system that procure from these countries are mostly those with significant field presence in the developing countries, in particular United Nations funds and programmes and other United Nations entities such as the regional economic commissions and field missions.

14. Thus, the United Nations Office at Nairobi (UNON), procures over 90 per cent of its goods and services from developing countries, while UNDP reported in 2002 that it had "increased the share of procurement from developing countries from 30 to 70 per cent within the last 10 years".[11] Likewise, UNICEF reported that it had expanded its supply sources from the developing regions by strengthening its decentralization policy, including raising the value of procurement by its country and regional offices by 130 per cent, from US$ 120 million in 1999 to US$ 273 million in 2001. According to UNICEF, the number of suppliers from developing countries and countries with economies in transition exceeded 80 per cent of all companies registered in its vendor databases at headquarters and field offices.[12]

15. However, due to the reality of globalization of the sales networks of most multinational corporations, procurement from developing countries may not always imply a net gain for the local economies, especially in cases where items so procured were manufactured and imported from elsewhere in the world. Purchases from local dealers, while advantageous in terms of much shorter delivery schedules – particularly important in emergency situations - may prove more costly than direct procurement from manufacturers, which generally offer price/volume discounts to organizations of the system. For example, in its audit review in February 2003 of the Office of the United Nations High Commissioner for Refugees (UNHCR) procurement, OIOS estimated that if UNHCR had procured all Toyota vehicles directly from the manufacturer in 2001 rather than ex-stock or from local dealers, it could have saved US$ 900,000. By OIOS estimates, vehicles purchased directly from the manufacturer cost about 15 per cent less (excluding possible discounts).[13]

16. Equally, the foregoing observation holds true for other manufactured items, information and communication technology (ICT) products in particular, medical equipment, vaccines and biologicals. The question therefore is how to best balance the policy principle of equitable geographical distribution of supply sources against the requirement of more cost-effective procurement operations. A literal application of the principle of lowest acceptable bid would mean that preference should be given to direct procurement from manufacturers where this latter option proves less costly than local procurement. On the other hand, if the "lowest acceptable bid" rule is construed - as it should be - in a dynamic sense to mean "best value for

[10] See, for example, General Assembly resolutions 52/226 of 31 March 1998, 54/14 of 29 October 1999, 55/247 of 1 May 2001, and 57/279 of 20 December 2002.

[11] A/57/187, paragraph 28.

[12] Ibid, paragraph 29.

[13] OIOS Audit of UNHCR Procurement (Audit report 03/03) of 6 February 2003, paragraphs 25 and 26.

money", then local procurement would seem to carry benefits other than purely financial ones including product customization to the local environment or conformity with local norms, emergency-imposed delivery schedules in humanitarian situations, predictable after-sales services in particular where these involve local warranty requirements and perhaps even more importantly, the need to build capacities in the local supplier markets of the developing countries, as further discussed in chapter VI.

Figure 2: Procurement from programme countries
(Millions of US dollars)

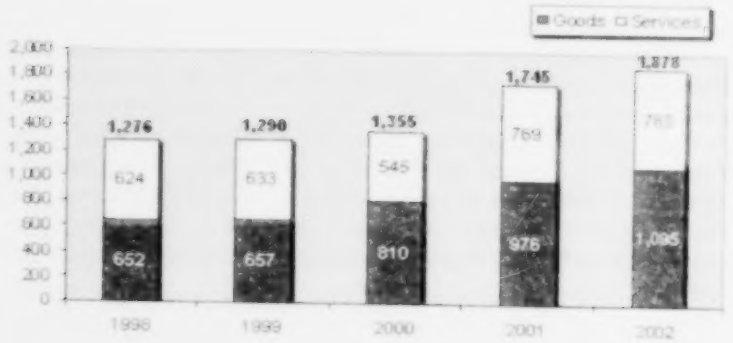
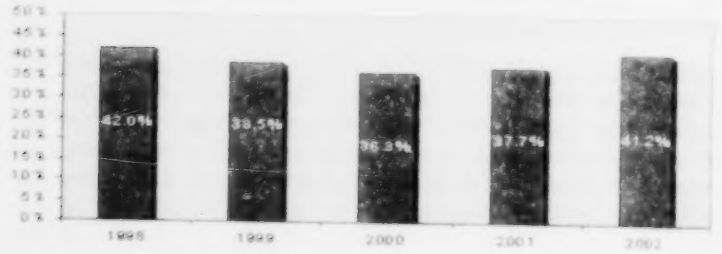


Figure 3: Percentage from developing countries



Source: IAPSO

Table 2: Common and specialized items procured by the United Nations system in 2002

Items	Procuring entities	Estimated value (US$ million)
A. Most common items		
1. Services and works for in-house administration and programme needs	Individually by all organizations, except at UN/HQ, Geneva and Nairobi duty stations where some services are procured under common service arrangements	2 000
2. Office supplies and equipment	Same as above	Not available
3. ICT items	Individually by the organizations; same contract terms or lead agency concept used sometimes at some duty stations	Not available

B. Some common items		
1. Transport equipment	IAPSO/UN/WFP/UNOPS/UNICEF/UNHCR/ UNDP/FAO	500[14]
2. Biologicals/drugs/pharmaceuticals	UNICEF/WHO/UNFPA/FAO/IAPSO/UNOPS[15]	43
3. Medical equipment	WHO/UNICEF/UNFPA	Not available
C. Specialized items		
1. Food	WFP[16]	307.5
2. Air transport services	UN[17]	234
3. Vaccines	UNICEF	203.5
4. Contraceptives	UNFPA	57.6
5. Agricultural machinery and produce	FAO	43.6
6. Equipment and services to phase out ozone depletion substances	UNIDO[18]	20
7. Steel products	UNOPS	18
8. Civil aviation equipment	ICAO	15
9. Laboratory equipment and supplies 10. Radiation monitoring 11. Reactors	IAEA	11.4
12. Scientific and printing equipment	UNESCO	8

D. Common and specialized items

17. Table 2 suggests that the organization of the procurement function within the United Nations system is far from optimal. There seems to be competition even in the procurement of some specialized items such as drugs and pharmaceuticals. Although procurement data under common service arrangements at some duty stations have not been reported separately, the tabulated information suggests that the IAPWG mechanism has not yet managed to encourage more rationalization of the procurement practices of its membership. IAPSO could perhaps be given a more prominent role in the procurement of common user items, including transport equipment and services in which it has built up many years of expertise.

18. Table 2 is complemented by other data on the scope of the organizations' procurement portfolio, outsourced in 2002 to other procuring entities within the United Nations system in the pursuit of coordination and division of labour. Only three organizations reported that procurement was performed in 2002 on their behalf by another sister organization. The value of such procurement appears limited. For example, UNPD reported that certain items (contraceptives and pharmaceuticals) were purchased through UNFPA and UNICEF respectively. For UNFPA, large spending was not contracted through other agencies and 4.8 per cent of the procurement value of the International Telecommunication Union (ITU) was contracted through another organization. However, ITU outsourced as much as 58.7 per cent of its 2002 procurement operations to the private sector and ILO did likewise for 8 per cent of its total procurement.

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[14] JIU conservative estimate, based on incomplete data provided by the organizations. The value of transport equipment and services reported by WFP, IAPSO, UNICEF and UNOPS alone exceeded US$450 million in 2002.

[15] Following a competitive bidding exercise in April 2001, IAPSO was selected to procure drugs and manage the related supply process for the Global Drug Facility (GDF) of the Stop TB Partnership (www.stoptb.org).

[16] Besides WFP, food rations procured for peacekeeping troops by the United Nations valued at US$ 38 million in 2002.

[17] The second group of items procured in 2002 by the United Nations consisted of chemical and petroleum products, amounting to US$64.5 million.

[18] Besides UNIDO, UNOPS also procured ozone-related items at a value of US$ 15 million in 2002.

19. Viewed in terms of cost-effectiveness, if not of common sense, the need to outsource the procurement function to a sister agency, especially under common services arrangements discussed further on in the report, would seem crucial where procurement is a tactical rather than a strategic function. Table 1 shows clearly in which organizations procurement is a strategic or core competence (United Nations, WFP, UNDP/IAPSO, UNICEF, UNOPS and arguably UNFPA). For most other organizations, procurement is an ancillary activity supportive of their constitutional functions. As such, an optimal, cost-effective configuration of procurement services would require the latter group of organizations to outsource as much as possible to the first group in order to further strengthen its core procurement competence, or to develop and share core competence facilities, especially for organizations based in the same area, with the benefit of sharing procurement staff costs.

20. Yet another variant would be to recognize and capitalize on organizational core competence for certain specialized products or product mix, such as vaccines (UNICEF), all medical equipment and supplies and pharmaceuticals (WHO), all food commodities, including food rations now supplied by UNPD (WFP), vehicles and equipment (IAPSO), air transport services (UNPD). In 1992, UNHCR, for which procurement is not a statutory activity, judiciously decided to outsource to WFP the procurement and distribution of food to refugee camps. However, the decision did not go far enough since WFP could probably well have absorbed all of UNHCR limited procurement activities, particularly as they both operate in the humanitarian sector. This analysis suggests the need to further rationalize procurement practices of the organizations.

E. Major clients

21. The goods and services procured by the organizations in 2002 were mostly for internal administrative and programme requirements, with some major exceptions. UNPD, in addition to procuring for Headquarters entities, also supplies peacekeeping missions around the world. About 20 per cent of such procurement is performed by field-based peacekeeping procurement units. UNDP, WFP, UNOPS and UNIDO procure mostly for their field projects. In 2002, procurement for Governments as direct clients was performed mostly by ITU (89 per cent of total); ICAO (85 per cent); UNICEF (32 per cent); IAPSO (8 per cent) and UNFPA (6 per cent). Total procurement on behalf of Governments amounted to just US$ 157 million, or 3.5 per cent of the organizations' aggregate spending in 2002. This means that with the exception of IAPSO which carries out procurement activities for a diversified constituency of clients including non-governmental and civil society organizations, procurement operations of the organizations are essentially geared towards their own administrative and field programme requirements, and this commonality should in principle justify a move towards ever more integrated procurement policies and services.

II. COST-EFFECTIVENESS OF PROCUREMENT SERVICES

22. Table 3 attempts to illustrate the cost-effectiveness of the organizations' procurement services in 2002 by using the human resource factor, which in most cases represents over 95 per cent of the costs of procurement services or total procurement cost. Taken into account is the fact that while staffing tables generally remain constant, procurement volumes may fluctuate from one year or biennium to another, as observed by the Inspector in the 1999-2002 procurement data provided by some organizations. The table displays two staffing efficiency measures, the average value procured in 2002 by each staff member (Professional and General Service combined) of an organization's procurement unit, and procurement staff costs as a percentage of procurement spending.

23. As the table shows, the staffing efficiency of procurement services in 2002 varied significantly from one extreme to another, with WFP[19] followed by the World Intellectual Property Organization (WIPO) at the highest end of the efficiency spectrum. The data for these organizations may not necessarily suggest that they constitute a benchmark for the procurement profession, in the absence of comparisons with public and private sector procurement organizations. Nevertheless, in the system-wide comparative context of Table 3, procurement services of organizations capable of delivering a combined average of US$ 6 million and above worth of goods, works and services per procurement staff member can certainly qualify them as efficient performers, while those delivering between US$ 8 million and US$ 10 million per staff member would be considered excellent or star performers, with the important proviso that all other factors remain more or less equal, as summarized below.

24. In their comments on the draft of this report, some organizations took the view that a lot more analysis was necessary before productivity norms and benchmarks could be established for procurement staff and services. IAEA, for example, pointed out that account should be taken of the average transaction volume, its distribution over all transactions, the structure of suppliers and volumes ordered per supplier along with research efforts per transaction. ILO considered that purchasing of specialized services involved technical, legal and logistical knowledge and was much more time-consuming than off-the-shelf procurement of commodities. According to UNPD, some functions pertaining to procurement, such as preparation of specifications, contract management, accounts payable, follow-up on claims and litigation are performed outside the procurement units - a fact to be considered in the benchmarking process. UNPD further contended that it is not possible to equate organizations with a small number of procurement staff that purchase a limited number of commodities on a repetitive basis with an organization that purchases several thousand different commodities and complex services with the same or similar number of staff. Yet another point made is that procurement of items considered "critical" in terms of security and safety such as pharmaceuticals, food rations or air charter services requires a pre-qualification process (e.g. acquisition planning, market research, factory audits, technical and financial evaluation of potential suppliers) that can take up to one year.

25. The Inspector concurs with the above points of view, but observes that the method used to compare procurement staff productivity and cost addresses more specifically the important issue of the overhead structure and cost, which is essentially the staffing and cost of the procurement function within the United Nations system in 2002. The computation methodology can, of course, be further refined to attain more objective precision in inter-agency comparisons, such as by covering two or more years, especially in cases of significant annual variations in procurement expenditure while staffing strength remains more or less the same, as the Inspector has done in respect of ICAO, ITU and UNON for example. Staff productivity and cost elements should be considered together because staff cost structures differ across duty stations, in particular between field and Headquarters locations. The valid points raised in the preceding paragraph apply by and large equally to all organizations in terms of procurement of goods, works and services, and where procurement performance can be dependent on support services provided by other internal or external units. In

[19] The data for WFP underscore the information it provided to JIU for the present report to the effect that its procurement services were professionally understaffed; UNPD also expressed the view that it was understaffed as concerns its procurement portfolio.

the Inspector's view, the significant differences in the staffing of procurement units relative to volume shown in Table 3 are rather due to structural than functional factors.

Table 3. Cost-effectiveness of procurement services in 2002[20]
(Thousands of US dollars)

Organization	Total spend	Total staff	Procured per staff	Staff costs	Staff costs % of total procured	Training budget
WFP	837 400	86	9 737	5 000	0.6	200
UNPD	521 000[21]	71	7 338	7 522	1.4	21
UNMIL[22]	293 000	86[23]	3 406	9 111[24]	3.1	
UNOPS	300 000	43	6 977			
FAO	149 350	47	3 178	4 800	3.2	15
WIPO	149 053	17	8 768	2 425	1.6	9
UNFPA	112 860	18	6 270	1 850	1.6	
UNON	99 000[25]	24	4 125	577	0.6	
IAPSO	82 000	22	3 727	2 764	3.4	79
WHO	76 710	28	2 740			
IAEA	70 000	36	1 944	2 439	3.5	
UNIDO	51 390	16	3 212	1 156	2.3	
ILO	46 740	9	5 193	940	2.0	
ICAO	39 167[26]	11	3 560	755	1.9	
UNESCO	29 319	21	1 396	1 202	4.1	
ITU	11 521[27]	10	1 152	1 048	9.1	26
IMO	4 500	1	4 500			
WMO	4 440	2	2 220			
UNOV	3 526	5	705	314	8.9	
	2 880 976	**553**	**4 218 (average)**	**2 794 (average)**	**3.15 (average)**	**350**[28] **(total)**

The organizations with highly decentralized procurement operations in over 100 different locations, such as UNDP and UNICEF, not included in the table, would logically have more procurement staff overall than organizations with mostly centralized operations. A relevant methodology for the former group would be to

[20] Excluded from this table are organizations that either did not provide data on the staffing of their procurement services or that provided data which proved difficult to verify.

[21] Figure for UNPD only as reported on its web site.

[22] United Nations Local Missions (Peacekeeping missions) with own procurement staff, excluding other field-based entities such as regional economic commissions and information centres; data from UNPD web site.

[23] 1998 field staff data reported by OIOS in its report on the review of procurement reform (A/52/813, para. 23).

[24] Extrapolated by JIU from UNPD staff costs for its 71 staff members at Headquarters.

[25] UNON expenditure in 2001 was US$ 188 million; average expenditure per staff member in 2001-2002 was US$ 6 million procured per staff member.

[26] ICAO procurement in 2001 was valued at US$ 89,410; average expenditure per staff member in 2001-2002 was US$ 5,844 procured per staff member.

[27] ITU 2001 expenditure amounted to US$ 33.6 million; average expenditure per staff member in 2001-2002 was US$ 2,256.

[28] Total includes US$ 100,000 for UNICEF not shown in the table.

calculate staff productivity in the decentralized procurement units separately, as the Inspector has done for UNPD and its field missions but could not do for UNDP and UNICEF for lack of complete data. For organizations with centralized procurement services, the low procurement volume per staff member and relatively high overhead costs can be attributed to the fragmentation of the procurement function at different duty stations so much so that organizations located together in New York, Geneva, Vienna or Copenhagen are still to begin sharing procurement overhead services and costs, for example through common service arrangements discussed later in this report. The organizations' comments on the draft report advocated almost entirely functional rather than structural improvements in current arrangements.

26. There is also the issue of product-based decentralization of procurement activities within some organizations. For example, despite its relatively small procurement expenditure, ITU has 4 separate units engaged in procurement: one for in-house administration (mostly office supplies and furniture), one for ICT products, one for development projects and yet another for ITU TELECOM exhibition activities, each reporting to a different head of department. ILO, which previously had two separate procurement units, one for technical cooperation projects and the other for its internal administration, moved a few years ago to bring both types of procurement under the same chain of command, leading to savings. Unlike WFP where a separate food procurement unit and manual would seem justified by the highly specialized and even complex requirements of food procurement and delivery, specialized procurement units operating under different systems of accountability might not represent optimal use of procurement resources, particularly in cases of relatively low procurement volume.

27. Staffing of the procurement function in the network of the organizations' country offices (over 130 of them for UNDP, UNHCR and UNICEF, for example) seems particularly blurred. Either because of staffing constraints or inadequate recognition by management of the importance of this function, it would seem that very few of these offices have specialized or professional procurement personnel and that the functions are performed by and large by clerical staff, as part of their other administrative duties. This observation is underscored by the difficulty noted by some organizations in providing data on procurement personnel based in their country offices. The implication is that it may be impossible to know the exact number of staff performing procurement functions in the decentralized organizations, which in turn makes it difficult to measure the cost of procurement or other performance dimensions. The total number of staff involved, fully or partially, in procurement worldwide may be between 1,500 and 2,000 strong.

28. Further, in view of the absence of staffing benchmarks to date, it is difficult to establish which procurement volume would justify full-time specialist procurement staff in the field offices, and perhaps even at Headquarters. This question is particularly relevant at a time when some organizations have significantly raised procurement thresholds for their field offices, for example as much as US$ 200,000 for United Nations peacekeeping missions and US$100,000 for UNDP and UNHCR country offices. Although Table 3 does not include data for all organizations, the findings do provide a rough guide for IAPWG members in the search for staffing benchmarks for the procurement profession at both field and Headquarters levels, taking into account performing ratios and other best practices in the private sector.

29. Additionally, and although some organizations disagree with the Inspector on this point, the ratio of General Service to Professional staff also requires a best practice standard. Analysis of the data provided to JIU for this report shows an average ratio of General Service to Professional Staff of 3:1 in 2002 for the combined procurement services of the organizations reporting data, with individual ratios ranging from 1.25:1 for ILO, and 1.4:1 for UNPD to 4:1 for FAO and the United Nations Office at Vienna (UNOV). Therefore, a ratio of four General Service staff members for each Professional staff member could constitute a best practice standard in centralized procurement services at Headquarters since the ratio would likely tilt significantly towards more General Service staff in field locations.

30. Staffing efficiency is only one measure of the cost-efficiency of procurement performance. Quality issues are obviously fundamental. These include effective management of the procurement process to ensure that goods, works and services received do indeed conform to order specifications of substance, scope and time frames, are free of defect, cost overruns, claims and/or litigation and, finally, that the end-users of the items in question are fully satisfied. Client satisfaction surveys should thus be part of the process of measuring

procurement performance. In addition, process efficiency should be factored in to the analysis, especially with respect to procurement cycles, such as the time lag between issuance of a purchase authorization and release of a purchase order or between the latter and the actual delivery of goods and services to end-users. Also relevant is the number of transactions or tasks required to complete the procurement process from authorization to payment and closure of accounts.

31. More importantly, an effective mechanism for follow-up of claims and/or litigation must be put in place since it appears that such a mechanism is now lacking. Some organizations expressed the need for adequate and timely legal support to enable procurement services to cope with any breach of contract on the part of vendors/suppliers and ensure timely compliance with contract terms. Almost all the staff in the procurement services of the agencies the Inspector had the opportunity of visiting did not have legal training. This aspect should be included in procurement training programmes. The Inspector however understands that substantive legal aspects of procurement are best handled by the legal counsel of the organization concerned, which would therefore call for improved coordination between the office of legal counsel and procurement units earlier in the procurement process, before contracts are concluded.

32. The use of outsourcing and common service arrangements as well as ICT systems and tools discussed in chapter V, could also enhance productivity and streamline transaction costs. The inspector was informed that e-procurement systems could compress process-time cycles from four weeks to four days. However, the scope and thrust of this report did not allow for any detailed inter-organization comparison of procurement quality variables and process efficiencies similar to the analysis of productivity and cost-efficiency shown in Table 3, which the Inspector has used as one example of how procurement performance could be measured. The data in the table should be complemented by other comparisons in order to facilitate the development of performance benchmarks for the international procurement system. It should be added in this respect that the General Assembly and ACABQ have called for a system for measuring the cost-effectiveness of procurement performance by the organizations.[29] The Inspector believes this issue to be sufficiently important to deserve systematic follow-up by the executive heads of the organizations, using the United Nations System Chief Executives Board for Coordination (CEB) and IAPWG forums, with a view to adopting productivity norms and other relevant standards to guide procurement performance within the United Nations system. Enhancing the productivity of procurement services is equally critically dependent on developing the professionalism of the staff concerned through effective training programmes.

[29] See General Assembly resolution 54/14 of 29 October 1999, and ACABQ report A/55/458, paragraph 13.

III. TRAINING

33. The need to expand training for procurement staff has been reiterated in successive General Assembly resolutions on procurement reform since 1996. For example, in resolution 51/231 of 13 June 1997 (para. 31), the Assembly invited the Secretary-General to intensify training programmes for all procurement personnel at Headquarters and field offices. Accordingly, training of procurement staff has been an integral part of the procurement reform programme at the United Nations in the past decade. Progress in this area has been reported almost annually in the Secretary-General's reports[10] on procurement reform and periodic OIOS reviews have confirmed the progress being made.[11]

34. While the Inspector concurs that progress has indeed been made since the 1994 report of the High-Level Group of experts on procurement, the training budgets shown in the last column of Table 3 suggest that investments by the United Nations and other organizations of the system in the training of their procurement personnel remain infinitesimal relative to procurement volumes. In 2002 for example, total investment in procurement training amounted to only 0.01 per cent of aggregate procurement expenditure, with the majority of organizations allocating no resources for that purpose.

35. The Working Group on a common procurement training initiative established in 1998 by IAPWG at its 24th meeting at Melbourne, Australia, has progressed so slowly that only in 2003, at the 28th IAPWG meeting in Warsaw, did it table a system-wide project proposal on the subject. The project's overall objective, as stated in the proposal, is:

> "To support the ongoing United Nations procurement reform initiatives and, in particular, to contribute in improving economy, efficiency, transparency and accountability of the procurement function in the United Nations system through dissemination of a system-wide common procurement curricula and training, complemented by a professional certification scheme for United Nations procurement personnel."[12]

36. In a nutshell, the project proposes three training components: (a) basic procurement training to be conducted by internal trainers of each participating agency; (b) advanced procurement training consisting of a Web-based distance learning programme; and (c) development of a professional certification scheme in the procurement of goods, works and services. The project's strategy is predicated on the assumption that there is adequate procurement expertise within the United Nations system which only needs to be mobilized in support of the project and that contributions in kind of the participating organizations (trainers, materials and facilities) will be available and adequate to finance at least one third of the project's estimated total annual cost of US$ 1.3 million.

37. The Inspector understands from IAPWG's comments on the draft of this report that this common training initiative has been revised to focus more on a procurement certification system for IAPWG members "to be supported by an extensive inventory of learning options offered by the United Nations and selected external providers through which those involved in procurement may develop the spectrum of competencies to achieve certification."[13] Whatever its new orientation, the Inspector believes that the project is an important undertaking that fills a clear need for procurement training, in particular for field-based staff. The initiative should therefore be pursued taking into account the progress already made by IAPSO in some areas covered by the original project strategy as well as the need to include other components like e-procurement and capacity-building technical assistance in support of public supply agencies in the recipient countries.

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[10] See, in particular, A/52/534 of 27 October 1997, paragraphs 11 to 15, and A/57/187 of 2 July 2002, paragraphs 2 to 8.

[11] See, for example, A/52/813 of 5 March 1998, paragraphs 22 to 28.

[12] Project proposal on common procurement training initiative for the United Nations, prepared by the United Nations System Staff College and ILO International Training Centre at Turin, Italy, 18 July 2002, presented to the 29th IAPWG Meeting in Warsaw, May 2003.

[13] IAPWG's comments on the draft of the present JIU report on procurement activities within the United Nations system (JIU/REP/2004/9).

38. Other organizations currently providing various forms of procurement training to their own staff, including to some external participants in limited cases, are: UNPD, WFP, UNICEF, UNOPS and UNHCR. As already noted, the budgets committed by each of these organizations for that purpose are relatively negligible. More efforts are therefore required to increase budget allocations for training and mobilize extrabudgetary resources from all appropriate sources. These observations lead to the conclusion that IAPWG's training project proposal, even in its revised strategy, should continue to reflect a more integrated approach to the rationalization of procurement training policies, methodologies and resources within the United Nations system and the need to cover the additional components mentioned in the preceding paragraph.

39. The findings in the preceding chapters suggest some work still to be done in existing arrangements for cooperation and coordination among the procurement services, in particular in research and development and sharing of best practice such as productivity and quality norms, integrated system for procuring common user items, outsourcing options within the procurement community and training initiatives. These inadequacies no doubt stem from inconsistent application outside of the United Nations and its funds and programmes of procurement policy guidelines laid down by the General Assembly. Another reason may be the informal and ill-defined status of IAPWG, which serves as a central forum for procurement professionals, and the lack of a clear inter-agency identity for IAPSO, as discussed in the following chapter.

IV. COOPERATION AND COORDINATION

A. Policy context

(a) Legislative guidance

40. The basic framework for administrative coordination among the organizations of the United Nations system, including in the area of procurement, is provided by the Relationship Agreements concluded since 1945 between the United Nations and the specialized agencies pursuant to Articles 57 and 63 of the Charter of the United Nations. The standard clauses in those Agreements, which define such coordination, relate to personnel arrangements, administrative and technical issues, and budgetary and financial arrangements. The provisions on administrative and technical issues, under which this subject falls, require the parties to avoid the establishment and operation of competitive or overlapping facilities and services among the United Nations and the specialized agencies in the interest of administrative and technical uniformity and of the most efficient use of resources.

41. Available information indicates that coordination of procurement practices within the United Nations system has not been an area of specific focus by ACC, renamed CEB in 2001, which had been established in 1946[34] to implement the above-mentioned Relationship Agreements. Until June 2003 when the High-Level committee on Management (HLCM), CEB body, decided to take a more formal interest in procurement matters, procurement had remained on the margin of CEB's coordination mandate. For example, apparently neither procurement professionals nor their IAPWG forum have ever constituted a subsidiary body of CEB similar to CEB committees for personnel, financial or ICT issues. This omission has persisted even as the aggregate volume of procurement activities by the United Nations system has increased considerably in the past decade to represent up to 37 per cent of the organizations' combined expenditures in 2002. Probably as a result, efforts aimed at fostering cooperation and coordination within the United Nations procurement community have not been as systematic and as productive as they might have been within the CEB framework.

42. The foregoing may also explain the limited overall implementation at the inter-agency level of successive General Assembly resolutions calling for the harmonization of procurement policies, rules and procedures, in keeping with the above-mentioned clauses of the Relationship Agreements. As far back as 1979, for example, the General Assembly had requested the organizations to take measures to achieve maximum uniformity of administrative, financial, budgetary, personnel and planning procedures, including the establishment of a common procurement system.[35] Although some initiatives taken in the past several years point to some improvements in this area, as will be seen below, more remains to be done. That should henceforth be feasible with CEB's HLCM taking a closer interest in this subject as would be justified by annual procurement-related expenditures.

(b) Policy and procedures manuals and other guidelines

43. Each organization has its own procurement manual. In some cases (ITU, WMO and UPU), financial regulations and rules include procurement-related clauses. For most of the organizations which provided information, the manuals exist only in English (ICAO, IMO, UNICEF, UNIDO, UNFPA, UNOPS and UNOV), for several others they exist both in English and French (United Nations, ILO, UNESCO and WIPO) or English and Spanish (IAPSO/UNDP) and in two cases of best practice in English/French/Spanish (FAO and WFP). Aside from the multilingual policies of some organizations, having procurement manuals in the

[34] Pursuant to Economic and Social Council resolution 13 (III) of 1946.

[35] General Assembly resolution 32/197 of 17 September 1979. The series of General Assembly resolutions on procurement reform in the past decade has generally included more or less similar provisions (see, for example, General Assembly resolution 57/279 of 20 December 2002).

three working languages of the organizations is an important practical requirement in cases of decentralized procurement operations, in particular the United Nations and its funds and programmes.

44. Although there exist procedural differences in the implementation of procurement contracts as reported by the organizations, the manuals contain similar policy principles, including for example, open participation, competition, fair and equitable treatment, value for money and lowest acceptable bid, avoidance of conflict of interest, transparency and accountability. The key stages in the process are also similar: from preparation of solicitation documents to bid review and contract award. These principles and stages are summarized in IAPSO's "Common Guidelines for Procurement by Organizations in the United Nations system". Since the guidelines were apparently intended for suppliers rather than for procurement staff, they do not stipulate the ideal or generic qualifications required of procurement officials, desirable quality standards of the procurement process, or the responsibilities and modus operandi of contract review bodies, both at Headquarters and field duty stations. For the same reason, and just as individual manuals make no provision for cooperation and coordination with other organizations in the conduct of procurement activities,[36] these common guidelines do not include any such provision, which would be useful in facilitating the work of common procurement services in particular, especially at field duty stations (see below).

45. The Inspector believes that the common guidelines represent an opportunity for the development of a model manual for the procurement community, and not only for the benefit of suppliers. Although many procurement officials seem satisfied with the usefulness of their manuals, in at least one case, concern was expressed about manual provisions that added no value to the process and appeared inconsistent with best practice in the private sector. Manual procedures were criticized as being overly bureaucratic, with low levels of delegated authority, many levels of review and requirements for several signatures, even after review by contracts committees.

46. These concerns illustrate the desirability of further simplifying and harmonizing the main procedural steps of procurement across the organizations. This would require the development of existing common guidelines into a comprehensive system-wide model, which would articulate common policy principles but also common practical procedures especially with respect to e-procurement methods, common thresholds at field duty stations and standard quality outcomes of the process. The objective should be to foster commonalities within the procurement profession and significantly streamline procurement steps and procedures, without prejudice to any statutory elements that might be specific to some agencies and which could be reflected in a common manual. IAPWG should therefore arrange for the further development of its existing common procurement guidelines into a generic system-wide policy and procedures manual to serve as a best practice model for the procurement community.

(c) Lead Agency Concept

47. The desirability and feasibility of a common procurement manual can be inferred from the progressive and rather successful development to date of the policy principle of Lead Agency Concept, which covers all United Nations entities and funds and programmes as well as all specialized agencies, including the Bretton Woods institutions. Under this arrangement, a master agreement or contract negotiated for the procurement of goods and services by any one or more of the organizations (Lead Agency(ies)) party to the arrangement shall similarly apply in its scope of benefits to other member organizations. All the officials consulted by the Inspector on this subject voiced support for the concept, which is generally viewed as a valuable tool for promoting cooperation and coordination within the United Nations procurement system. A draft agreement designed to formalize this understanding was presented at the 28th meeting of IAPWG. The draft agreement did not adequately guard against the undesirable possibility that the organizations could create a monopolistic situation if many or the majority of them sourced goods or services from a single supplier. That caveat made, the Inspector urges all IAPWG members to participate in the Lead Agency Concept Agreement, which should

[36] UNPD and United Nations funds and programmes at Headquarters have adopted common procurement-related financial regulations and rules.

be fine-tuned periodically, at the level of procedural detail in particular, in the spirit of the recommendation on a common system-wide procurement manual or its three-tier alternative.

B. Mechanisms

(a) Inter-Agency Procurement Working Group

48. The IAPWG mechanism, in existence for the past 30 years, has been the main forum for interaction among procurement professionals of the United Nations system. Meeting once a year, IAPWG alternates its meeting venues between the developed regions on the one hand and the developing countries, and countries with economies in transition on the other. Its meetings additionally provide an opportunity for the business community of the host country to gain greater exposure to the procurement policies and activities of the organizations. The meetings typically consist of two segments: a closed session reserved for inter-agency discussion of common issues and an open session for exchanges with the local business community. The Inspector had the opportunity to participate, as observer, in the 28th meeting of IAPWG held in Warsaw, in May 2003, and thereafter to seek the views of the participating organizations on the functioning and effectiveness of IAPWG as an inter-agency coordination body. The Inspector also solicited opinions on the periodicity of IAPWG meetings and as to whether external participants, such as representatives of donor and recipient clients, private sector suppliers and oversight bodies, would be welcome at its meetings so as to provide fresh perspectives on the procurement function, especially in the private sector.

49. Virtually all the organizations appreciated the valuable information exchange forum that the IAPWG's meetings represent. Also widely acknowledged was the progress made in recent years by IAPWG in addressing and following up on concrete issues of cooperation and coordination in a number of areas, such as the Lead Agency Concept, common training initiative, common supply database, etc. At the same time, opinions diverged as to whether IAPWG was adequately equipped or had the statutory authority to deepen cooperation and coordination within the international procurement community. Some organizations felt that IAPWG should continue to meet annually as an informal body reserved only for procurement professionals, other organizations suggested enhancing its role and convening its meetings twice a year. Yet, a few other organizations thought that biennial meetings would make sense, especially if members continued to network electronically as a community of practice beyond periodic meetings. Most of the organizations did not favour the option of inviting external participants to IAPWG meetings.

50. Having considered all the views expressed by the organizations on the functioning and effectiveness of IAPWG, the Inspector makes the following observations:

(a) The actual mandate of IAPWG could be more explicitly defined; the Inspector's research for this report did not produce any legislative mandate for the activities of IAPWG. Further clarification provided by IAPWG to JIU on this matter suggests that it's creation in 1976 was an inter-secretariat initiative piloted by UNDP, and that to date, this initiative has not been endorsed by a central legislative organ despite the considerable growth over the years of procurement activities of the system. Consequently, IAPWG's relationship with the legislative organs of its member organizations, in particular the General Assembly, is not clear. This lack of clarity has implications for implementation of IAPWG's recommendations or decisions in the organizations and for budgeting resources for joint procurement improvement projects, and the choice of resources that must be approved by the governing bodies.

(b) IAPWG also lacked policy oversight until June 2003 when HLCM/CEB decided to start receiving its reports. Further, it is not clear whether procurement officials attending meetings of IAPWG do so as duly mandated representatives of their organizations or in their individual capacity. The difference is important in terms of enhancing the institutional authority and effectiveness of IAPWG in inter-agency procurement matters. As an example, IAPWG's comments on the draft of this report advised that since it was an informal body, its "comments are not meant to modify or otherwise affect the official comments submitted to the Inspector" by its various members.

(c) There is not enough evidence to indicate that during its 30-year lifespan, IAPWG has stimulated efficiency reforms within its membership, collectively and individually. Although some organizations, in particular ILO, disagree with this assertion, the Inspector observes that most of IAPWG's recent policy innovations were trickle-down effects of procurement reforms at United Nations Headquarters and of a reinvigorated IAPSO.

(d) The data on procurement expenditure displayed in the previous chapter clearly show wide differences in the distribution of procurement power among IAPWG membership, implying that the subject does not hold the same level of importance for all participants. Although all organizations should continue to participate in IAPWG's meetings, such participation could be restricted to the chief procurement officer of each organization or entity, and some agenda items could be dealt with in three circles or committees: United Nations Secretariat; United Nations programmes and funds, which should spearhead procurement reform at field duty stations and the specialized agencies. Each circle or committee could take leadership for a set of procurement issues considered most relevant to each of the clusters. This approach could henceforth define the format of IAPWG's meetings and output.

(e) IAPWG needs to interact more with other entities in the public and private procurement sector and relevant academic bodies so that it is kept abreast of practice, innovations and trends in the external environment. To this end, one or two representatives from outside the United Nations system could be invited to make a presentation on a topic of IAPWGs' choice at each of its meetings.

(f) Strengthening of common procurement services and other cooperative arrangements at the different duty stations, as further discussed below, should be an ideal topic for discussion and action at IAPWG annual meetings.

51. In conclusion, the Inspector recommends that IAPWG's inter-agency cooperation mandate be clarified by a resolution of the General Assembly and that IAPWG report annually to the General Assembly through CEB with action-oriented proposals for improvement in the management, performance measurement and coordination of the procurement function in the system.

(b) Inter-Agency Procurement Services Office

52. IAPSO, which provides the secretariat for IAPWG meetings, also has role identity problems not entirely dissimilar to those of IAPWG, which it serves. Established in 1978 by UNDP at a time when it was the main source of funds for technical cooperation projects implemented by the specialized agencies, IAPSO's original mandate was to harmonize the procurement practices of the organizations relating to field projects with special focus on the purchase of equipment, in particular vehicles, at lowest possible cost. This original mandate was progressively expanded by decisions of the UNDP Executive Board to encompass a broader range of inter-agency procurement functions, such as promoting inter-agency cooperation and coordination, harmonization of procurement rules and procedures, establishment of a common vendor database, compilation of procurement statistics, standardization of equipment procurement and serving as secretariat to IAPWG.

53. While IAPSO's inter-agency mandate evolved incrementally in the 1990s, UNDP's role in the financing and coordination of the technical cooperation activities of the system organizations was conversely declining. In this context, the fact that IAPSO remained an integral part of UNDP while the latter was losing its centre of gravity within the multilateral development system did not help to promote IAPSO's inter-agency procurement functions and image. Although none of the organizations the Inspector consulted questioned the usefulness of IAPSO's services, doubts were expressed as to whether it was a procurement arm of UNDP or truly an inter-agency mechanism. Indeed, UNDP has over the years subsidized IAPSO's operations (up to 2001) and has been its most important client, accounting in 2002 for 35 per cent of its procurement volume. However, IAPSO's share (US$ 29 million) of UNDP's combined procurement business of over US$ 800 million in 2002, for example, was barely 3.5 per cent.

54. The mandate given to IAPSO to promote cooperation and coordination is the same objective pursued by IAPWG. There is thus a semblance of coherence in IAPSO serving as secretariat to IAPWG. However,

IAPSO reports to the Administrator and Executive Board of UNDP from which it receives policy guidance while IAPWG reports to no higher authority. Although the organizations indicated to the Inspector that they valued IAPSO's inter-agency services, it is noteworthy that the procurement business conducted by IAPSO for the same organizations combined (excluding multilateral financial institutions) was just under US$ 50 million or barely 1 per cent of their aggregate portfolio in 2002.

55. This state of affairs translates into a sort of identity crisis for IAPSO. The problem has been compounded by the requirement that the Office not only be self-financing but should also generate, from the minimal procurement business awarded to it, surplus income for financing inter-agency services, which IAPWG members have acknowledged as valuable. IAPSO responded to this challenge by restructuring its business model. Thanks to various efficiency measures, including the introduction of activity-based costing and an e-procurement platform, it reduced its staff strength by 25 per cent and slashed transaction costs as process automation replaced manual paperwork. These reforms enabled the Office to generate a net income of US$ 100,000 in 2001. It also moved to diversify its income base through increased procurement training and consultancy services, mostly in developing countries.

56. As assessed by the Inspector, IAPSO's internal reforms represent a valuable case study of how procurement services within the United Nations system can be successfully streamlined and made more cost-effective - in line with the objective of this report. The Office's performance, including its achievement in reducing staff by 25 per cent, constitutes best practice in management that should be studied and emulated by other organizations still to reform and automate their procurement systems. Accordingly, IAPSO's reform experience and results (as well as those of other organizations that have streamlined their procurement services in recent years, such as UNPD) should be shared in detailed and systematic fashion with other organizations at future meetings of IAPWG.

57. IAPSO's commendable efficiency achievements have, however, not solved the puzzle of its institutional status within the United Nations procurement system. In order to self-finance its overhead costs as well as the inter-agency services, it needs to win procurement contracts, given that upwards of 80 per cent of its income derives from procurement fees. To increase its current negligible share of the international procurement business, it has moved to compete more for contracts, sometimes with its sister agencies, members of IAPWG. Although competition and duplication are widespread in the United Nations procurement environment, as depicted in chapter I of this report, it remains a matter of doubt whether IAPSO can carve out of this procurement market setting, a niche position that guarantees its continuing future viability.

58. The Inspector observes, for example, that although IAPSO has to date demonstrated unique strengths by reaching a diversified client base outside of the United Nations system, developing a growing procurement training and consultancy business portfolio as well as a state-of-the-art e-procurement platform, its procurement activities duplicate more particularly those of UNOPS, which also reports to the UNDP Executive Board. UNOPS procurement office is in the same building with IAPSO in Copenhagen. The Inspector obtained the views of the two entities and of other organizations on the advantages and disadvantages of a possible merger of the two facilities.

59. Both entities are at present self-financing and therefore, a priori they have no cost implications for the Member States. However, given that their clients are United Nations agencies which pay for these services from either their core funds or voluntary contributions, a preliminary analysis leads the Inspector to estimate that a merger of the two entities could result in recurrent savings of at least US$ 800,000 per annum in reduced staff and non-staff costs arising from the elimination of duplicate staff posts. An additional benefit of a merger of the two would be to combine their respective strengths and initiate a process of rationalizing procurement services and practices of the common system. Importantly, other benefits would include: (a) Integration of all procurement activities and benefits from economies of scale vis-à-vis the supplier community; (b) streamlining of, and greater efficiency in, process and procedures; (c) benefit from local Contracts Committee and Legal services support as well as payment services, in order to shorten lead times; (d) creation of conditions for establishment of a United Nations procurement knowledge centre including the daily benefits of learning from a broader professional environment and (e) creation of a base for identification

of a larger number of procurement training instructors participating in standard and tailor-made procurement training activities.

60. UNOPS's current procurement portfolio is close to five times that of IAPSO's, but the latter has some institutional and productivity assets, mentioned above, and an inter-agency mandate, though under-funded, which UNOPS lacks. However, the possible scenario and implications of such a merger would need to be studied in greater detail than is possible in the present report. The Inspector, therefore, recommends that the Secretary-General, in consultation with the executive heads of UNDP and UNOPS, should consider this issue on the basis of a review by a consultant who specializes in corporate mergers. In the event that existing arrangements are retained, UNDP should continue to finance the inter-agency services IAPSO provides to IAPWG membership.

(c) Common procurement services and other cooperative arrangements

61. **United Nations Headquarters:** In the previous chapter, the Inspector touched on the reform of procurement services at United Nations Headquarters within the past ten years, particularly in the context of the Procurement Working Group of the Task Force on Common Services established by the Secretary-General in 1997 as part of his reform agenda for the Organization. One of the achievements of the Working Group was the agreement to harmonize procurement-related financial regulations and rules and contract documents. Joint procurement arrangements for the Headquarters organizations are now more common than in previous years. However, the impact in terms of cost-effectiveness of the new arrangements for the organizations concerned has to date not been documented.

62. The Procurement Working Group failed to explore the option of merging all the procurement services at Headquarters into a single entity for various reasons cited by the organizations as obstacles to common services, and concerning each organization's corporate identity, specialized operations, or procedural differences specific to their business processes and accountability systems. The Inspector believes that a strong case can be made for pooling procurement capacities at Headquarters within UNPD in order to maximize the recognized benefits of its reorganization into specialist units supporting a wide array of procurement activities, including over 40 different items, both for Headquarters and for field development, humanitarian and peacekeeping operations all over the world.

63. In that regard, it is important to emphasize the fact that the ideal qualifications of a procurement professional need not necessarily include expertise in a particular commodity although that would be useful. Such expertise is usually lodged in the substantive or technical departments, which generate specifications and requisitions for procurement services. Procurement experts are first and foremost business professionals with strong skills in communication, negotiation and versatility and possessing sound knowledge of the supply chain, all of which are necessary to effectively manage business processes between suppliers and end-users. In principle, therefore, it should be feasible to integrate procurement overhead services at Headquarters under one roof. This goal could be achieved by 2010. As an intermediate stage on this road map, however, the procurement services of the funds and programmes based at Headquarters could be merged, and IAPSO should be absorbed by the new entity.

64. A number of advantages could be derived from such a streamlined reorganization of the procurement function at Headquarters. Besides potential cost-cutting, it would eliminate duplicative procurement structures of organizations, all of which are ultimately accountable to the same General Assembly and Secretary-General, are covered by the same oversight bodies, and share the same Headquarters. It would consolidate the results achieved thus far in procurement reform, and lend further recognition and visibility to the procurement profession within the United Nations itself, and by extension, within the common system as a whole. It would provide energetic leadership and a frame of reference for rational integration of procurement services and practices at other duty stations, especially in the field. It would be consistent with, and help implement, the legislative and policy prescriptions outlined at the beginning of this chapter on common services and facilities, including common procurement system. More fundamentally, it should help implement the recommendation in chapter VI requiring the United Nations system to develop a technical assistance strategy and programme

supportive of capacity-building for public procurement agencies in the developing countries and economies in transition. The Secretary-General may therefore wish to review, with external assistance as necessary, the overall efficiency benefits of these proposals.

65. **The United Nations Office at Geneva:** Procurement reform initiatives similar to those at United Nations Headquarters are in progress at the Geneva duty station as well. A Task Force on common services was established in 2001 and includes procurement as one of its areas of work. As a result of this new common service dynamic, the Joint Purchase Service (JPS) involving most of the Geneva-based organizations and in existence since the early 1950s, has been increasingly instrumental in fostering greater collaboration among its members in the field of procurement, including utilities, travel agency services, banking, etc. According to JPS estimates, cost-cutting resulting from these common or coordinated arrangements amounted to over Sw F 1 million in 2002. More joint initiatives are reported to be in the pipeline.

66. While the United Nations Office at Geneva (UNOG) provides procurement services to most of the United Nations entities located at Geneva, each of the specialized agencies and UNHCR maintain separate services. Despite the increasing collaboration within the Task Force on common services and JPS noted above, the question still arises as to whether each Geneva-based organization must operate its own procurement service irrespective of annual expenditure and the opportunity that location in the same vicinity offers these organizations for consolidation and sharing of overhead costs. It is recalled in this connection that in its 1998 report on the United Nations system common services,[37] which was endorsed by the General Assembly,[38] JIU recommended the progressive establishment over a ten-year period (2000-2010) of three common service centres at Geneva (UNOG, ILO/WHO and ITU/WIPO/WMO). If this strategy for reorganizing common services at Geneva is implemented, then three procurement services (one at each of the centres) should ultimately replace the numerous services now operating at Geneva.

67. **The United Nations Office at Vienna:** The progress outlined above is yet to be extended to other major duty stations. Although the Vienna-based organizations are conveniently housed in the same building complex, a 2002 JIU report on common and joint services of the United Nations system organizations in Vienna[39] found that each of the four organizations at the Vienna International Centre had its own headquarters procurement service and that various joint arrangements that existed previously had been dismantled. The report recommended the creation of a working group to explore the potential cost-efficiency that might accrue from common procurement arrangements. The principal recommendation of the report calling for the establishment of a single common administrative services unit to be managed by UNOV should, when implemented, also pool procurement services at this duty station.

68. **Copenhagen** is host to four United Nations system procurement services: UNICEF Supply Division which is by far the largest with about 400 staff, IAPSO and UNOPS which share a common building as previously discussed and a small procurement unit operated by the Regional Office of WHO for Europe (WHO/EURO). In his discussions with these entities, the Inspector was informed that the units concerned communicated with each other but that there was no formal or structured system of cooperation and coordination in procurement matters, although UNDP, in its comments on the draft of this report, informed JIU of the existence of a "common services procurement group in Copenhagen". As the Inspector observed during his visits to Copenhagen in the preparation of this report, whatever cooperation existed was rather informal and sporadic. In view of the procurement reform initiatives under way at other duty stations, it would seem logical that the services based in Copenhagen should also be engaged in strengthening cooperation. For example, UNICEF could serve as the procurement arm for WHO Regional Office for Europe, and a Copenhagen forum could be created for sharing information, experience and best practice. In this context, the lessons learned by IAPSO in its procurement reform could be more systematically shared with other entities

[37] United Nations system common services at Geneva, Part I: overview of administrative cooperation and coordination (JIU/REP/98/4, A/53/787).

[38] See General Assembly resolution 54/255 of 4 May 2000 on the JIU report in question.

[39] Common and joint services of United Nations system organizations at Vienna (JIU/REP/2002/12).

located in the same place. Further, the need to rethink the relationship between UNOPS and IAPSO has already been touched upon elsewhere in this report.

69. **The United Nations Office at Nairobi**: UNON is essentially a common service facility for the close to 20 United Nations system agencies represented in Nairobi with about 2,600 staff members, 1,650 of whom are based at the Gigiri Complex and a further 950 located outside. UNON has a Procurement, Travel and Shipping Section (PTSS/UNON), which procures supplies for UNON, the United Nations Environment Programme and United Nations Human Settlements Programme but not for the other organizations, each of which operates its own procurement service. There exists an Inter-Agency Procurement Group for sharing information on suppliers and for implementing the Lead Agency Concept, which however does not seek to streamline and pool procurement operations under a single chain of authority.

70. Achievements of the Headquarters Procurement Working Group in the harmonization of procurement-related regulations and rules and contracting tools have apparently not yet been replicated at the level of UNON and other field duty stations. However, the Inspector is aware of ongoing efforts by the United Nations Development Group to expand common premises and services in the field, and hopes that these efforts will encompass common procurement services in field offices, including common local contract committees and facilities. The lack of harmonization of host country agreements between the various Nairobi-based United Nations system organizations and the Government of Kenya poses a special problem for UNON and probably for field offices confronting similar situations in other countries.

71. Dissimilar host country agreements create disparities in the application by the host country of the privileges and immunities of the organizations. For example, the organizations are required to pay duty and value added tax[40] when they purchase communication equipment. By strengthening common administrative arrangements, standardizing operational rules and procedures and negotiating with one voice with the host Government, Nairobi-based organizations should ultimately succeed in persuading the Government to standardize the host country agreements. The Inspector therefore recommends that, consistent with relevant General Assembly resolutions on common services, the Secretary-General should institute similar reforms at UNON and at other field duty stations where that is not yet the case.

(d) Networking of procurement services

72. IAPWG members increasingly recognize the need to establish a procurement "community of practice" (or network of information exchange and collaboration) that would strengthen working relations among the different duty stations, in particular between the field offices and global duty stations, as well as among procurement professionals themselves. Procurement staff mobility, including working, coaching or study visits, staff exchanges, loans, secondments and transfers among the procurement services, should be part of the networking agenda. Optimally used, the network should facilitate the sharing of operational information, innovation, best practice and virtual learning facilities, especially with respect to e-procurement methods.

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[40] Recommendation 7 of the JIU report entitled Management audit review of outsourcing in the United Nations and United Nations funds and programmes (JIU/REP/2002/7) requests the Secretary-General to review with competent national authorities all cases in which the levying of taxes on the organizations for their outsourced services might be in contravention of the relevant provisions of the Convention on the Privileges and Immunities of the United Nations, and to report the outcome to the General Assembly.

V. ELECTRONIC PROCUREMENT

A. State of progress

73. Information provided by the organizations on the topic of e-procurement (meaning basically the use of ICT systems and tools to conduct the procurement function either partially or fully throughout the cycle), indicates some differences within the United Nations system in current e-procurement practices and in the state of progress accomplished thus far. The differences appear to relate not so much to inherent constitutional specifics as to more mundane issues such as lack of awareness by policy-making bodies of the full benefits of ICT solutions and their limited budgetary outlays for such solutions; varying technological endowments and internal capacities to deliver change processes through "re-engineering" techniques; the choice or existence of different software packages; constraints imposed by internal regulations and rules; and concerns about equitable treatment of potential suppliers in the developing countries with limited or non-existent ICT capabilities.

74. In general, however, with the exception of IAPSO, e-procurement is still at the initial stage of development in the vast majority of the organizations, although ILO reports that it has commenced implementation of an Enterprise Resource Planning platform, including an ILO-oriented procurement module, with direct e-commerce ordering facilities. E-procurement is yet to be reflected in procurement policy and procedures manuals as an alternative method to manual transactions. Consequently, no special policies and rules have yet been devised specifically for this method of procurement that requires a special regulatory regime encompassing issues of security, electronic signatures, system integrity, backup arrangements, etc. Although some organizations expressed confidence in the fact that their existing manuals were flexible enough to accommodate e-procurement processes, the Inspector remains doubtful of that claim in cases where ICT solutions were to be applied across the entire procurement cycle.

75. Most of the organizations currently use e-procurement for displaying or posting procurement information on their web sites, including procurement guidelines, and for communicating with suppliers and clients. The web sites are generally linked to those of other procurement services within the United Nations system as well as to the United Nations Global Marketplace, formerly Common Supply Database, maintained by IAPSO. The ease of accessibility to procurement information on the web sites varies from case to case. For example, instant information on procurement is available on the main menus of FAO, UNICEF, UNOPS and WFP, but not on the United Nations web site, which requires the user to search for "United Nations Departments" and then "Procurement Division". No external supplier without prior knowledge of the United Nations Secretariat structure would easily access procurement information on the web site. The same observation applies to ICAO and UNHCR web sites. With respect to procurement statistics in particular, it does not seem that the information posted on the web sites is updated regularly in most cases, as most updates are dated either 2002 or 2001. In the case of UNOG, the last update was in 1996. A few organizations have no procurement information at all on their web sites (ITU, WMO and WHO).

76. The 28th IAPWG meeting in May 2003 discussed the results of an in-depth study on the future potential for e-procurement in the United Nations, which IAPWG had commissioned from the Centre for Research in Strategic Purchasing and Supply (CRiSPS) of the University of Bath School of Management. The study analysed 14 steps in the procurement process from specifications and vendor registration to shipment tracking, invoicing and payments, and found that specifications, supplier registration and requests for information during the tendering process and payments, were the most "electronic", while invoicing was the least. The study also found that close to 80 per cent of the organizations that had reported data were still at the stage of "*planning to implement e-procurement within the next three years*". However, an angle the study failed to explore, but which is specifically appropriate in the context of IAPWG, was the scope of inter-agency cooperation in planning and developing e-procurement solutions.

77. IAPSO, currently the most advanced entity in e-procurement, reports that all its procurement functions are carried out using electronic methods and all purchase orders are issued in its UNWebBuy e-commerce application. It would seem that IAPSO is at present the only organization in the procurement system to have

successfully automated its entire procurement process. This achievement was made possible by IAPSO's relatively modest investment in the development of its UNWebBuy platform, which enables over 4,000 registered customers all over the world to access IAPSO's product catalogues, create their own quotations online, select their preferred shipment routes and receive firm quotations including insurance and discounts which are calculated automatically.

78. UNWebBuy also includes features allowing suppliers to check and correct as may be necessary catalogue and products data. As the procurement agent of the Global Tuberculosis Drug Facility (GDF), IAPSO has used its e-commerce application effectively to deliver drugs around the world, valued in 2002 at US$ 11 million. In the process, IAPSO coordinates the services of other selected agents for laboratory analyses, pre-shipment inspections, freight and insurance, etc. using the application's e-logistics management module developed in 2002. Direct procurement of drugs by the recipient countries is also possible through IAPSO's e-commerce platform.[41] Thus IAPSO's UNWebBuy demonstrates the possibilities and opportunities that e-procurement represents for the organizations.

B. Opportunities

79. In their responses to the JIU questionnaire on this topic, there was general recognition by the organizations of the benefits and future opportunities of e-procurement, for inter-agency cooperation, for standardization of practices and for the clients. These responses are summarized below.

(a) Benefits for individual organizations

(i) Increased efficiency and transparency through streamlining of processes and significant reduction in transaction costs; (ii) reduction in numbers of staff and fewer human errors, greater accuracy and speed of implementation; (iii) ability to move from tactical level to strategic procurement issues leading to substantially improved procurement performance and to better performance management; (iv) ready access to, and ability to analyse, data and (v) improved staff satisfaction and motivation.

(b) Benefits for inter-agency collaboration

(i) All of the above-mentioned benefits; (ii) improved market leverage and economies of scale; (iii) timely and expanded sharing of market and operational information; (iv) standardization of e-suppliers; (v) benefits from adherence to procurement proceedings undertaken by other agencies and (vi) improved networking among procurement services.

(c) Benefits for standardization of procurement rules and procedures

(i) Compatibility of rules and platforms would facilitate sharing of procurement proceedings and outsourcing within the system by enabling agencies to procure on behalf of others; (ii) uniformity in the quality of products and (iii) enhanced compliance and easier statistical compilation.

(d) Benefits for client countries and organizations

(i) Faster and easier access to information, process efficiencies and faster turn-around cycles or lead times; (ii) lower costs and better service through accelerated delivery and high quality at best prices; (iii) better monitoring and easier reporting; (iv) stock checking and prices; and (v) greater opportunities for international procurement for some services and commodities.

80. While not questioning the potential benefits of, and opportunities presented by e-procurement noted above, FAO points out that it is seeking to utilize the procurement modules of its broader Oracle Financials applications to automate the process and is investigating the possibility of utilizing Oracle i-procurement for frequently purchased items in response to possible increases in local purchase limits. However, more advanced e-procurement solutions such as Arriba, Commerce one and Oracle's own product may not be cost-

[41] Summarized from information provided in UNDP/IAPSO brochure: Review 2002 and from the Inspector's discussions with IAPSO officials.

effective for two thirds of its current expenditure relating to agricultural and associated products, due to restrictive technical specifications, requirements for geographical distribution of purchases and the need to vary suppliers.

81. Thus the general assessment of the merits of e-procurement left no doubt that it was considered as the indispensable way forward in modernizing the procurement function within the United Nations system and bringing it to world class standards. Indeed, the benefits identified by the organizations are quite similar to those observed in a World Bank paper entitled *Electronic Government Procurement (e-GP)*[42] and reproduced in Table 4. The paper notes that thanks to e-procurement prices can be reduced by 10 to 20 per cent due to increased competition and transaction costs may fall by 50 to 80 per cent. The paper cites the example of the Republic of Korea's Government Electronic Procurement System which cost US$ 26 million to develop but saves US$ 2.7 billion of all government procurement valued at US$ 17.1 billion. Notwithstanding such cost-cutting opportunities among others, the organizations' replies to the JIU questionnaire on this topic left little doubt about the constraints to be overcome on the way to realizing the potential benefits of online procurement methods.

Table 4: Benefits and beneficiaries of electronic government procurement

	Government	Supplier	Public
Transparency	• Anti-corruption • Increased number of suppliers • Better integration and interaction between governments • Professional procurement monitoring • Higher quality of procurement decisions and statistics • Political return from the public	• Increased fairness and competition • Improved access to the government market • Open the government market to new suppliers • Stimulation of participation by small and medium-sized enterprises • Improved access to public procurement information • Government accountability	• Access to public procurement information • Monitor public expenditure information • "Have a say" • Government accountability
Efficiency *Costs*	• Lower prices • Lower transaction costs • Staff reduction • Reduction in fiscal expenditure	• Lower transaction costs • Staff reduction • Improved cash flow	• Redistribution of fiscal expenditure
Time	• Simplification/ elimination of repetitive tasks • Communication anywhere/anytime • Shorter procurement cycle	• Simplification/ elimination of repetitive tasks • Communication anywhere/anytime • Shorter procurement cycle	• Communication anywhere/anytime

Source: World Bank

C. Constraints

[42] World Bank Draft Strategy, October 2003

Table 5: Constraints on e-procurement in the United Nations system

Constraints	Possible solutions
1. Staff resistance at many levels	Leadership, training and coaching
2. Budget/funding limitations	Persuade Governing Bodies and donors of long-term benefits of e-procurement
3. Lack of ICT compatibility	Inter-agency work to enhance compatibility
4. Inability of suppliers in recipient countries to use e-procurement	Survey suppliers' capabilities and use two-track approach to sourcing and tendering
5. Other priorities take precedence	Prioritize e-procurement initiatives
6. Field offices face connectivity and bandwidth problems	Invest in ICT infrastructure
7. Electronic signatures and other online methods not yet approved; lack of confidence in e-transactions	Review systems security and amend policy on electronic signatures; the means exist to ensure that electronic signatures can be trusted
8. Need assurance of confidentiality, integrity and availability guarantees in the computing infrastructure	These can be ensured with reasonable assurance if incentives are provided
9. Legal and procedural limitations	The United Nations should adopt a common enabling legal framework for e-procurement and its operational procedures
10. Lack of in-house awareness of e-procurement and the requirements for its implementation	The requirements and cost-benefit should be analysed and widely disseminated
11. Organizational culture (too many controls, verification and approval levels)	Requisite authority to be delegated to procurement experts who should be fully responsible for proceedings
12. Lack of senior management commitment (procurement is regarded as basic, trivial administrative activity with low intellectual implications)	Increase awareness of the importance of professionalism through staff qualifications and availability of resources
13. Lack of ICT solution covering all aspects of public procurement	Implement a system covering the procurement cycle and compatible with other internal business systems and with other United Nations system organizations

82. The above summary is self-explanatory regarding the constraints facing the organizations as they attempt to implement e-procurement methods. Some of the challenges are even more acute at field duty stations, especially with respect to ICT capabilities and environment, which will limit recourse to this procurement method for many years to come. For example, UNON officials informed the Inspector that their suppliers experienced problems receiving and reading e-mail messages and attachments so much so that facsimile copies also had to be sent to them. Power outages and computer crashes also pose problems. The two-track approach proposed by some organizations for doing business with suppliers in the developing countries appears to be a reasonable interim solution. Beyond that, the example already provided by IAPSO's e-commerce platform shows the way forward.

D. Way forward

83. The fact that the organizations are, with few exceptions, at the start line of e-procurement presents a number of advantages and opportunities. For one, it means that significant resources have not been wasted on individual and uncoordinated trial-and-error projects, such as characterized the development of ICT strategies and systems in the 1990s, at great cost to the Member States. Secondly, the organizations will have the opportunity to learn from each other by sharing best and worst experiences and jointly developing strategies and tools to make e-procurement a mainstream application in supply services. Thirdly, it should considerably

facilitate procurement reform and the pooling of procurement services. Fourthly, the CRiSPS report on this subject and lessons learned to date by IAPSO provide useful insights into what it takes to develop an e-procurement platform, especially the need to transform organizational cultures, to realign policies and rules, to change the skill set of procurement staff through systematic retraining, and to accept the inevitability of staff reductions either through natural attrition or otherwise. The Inspector outlines below the basic principles which should guide the organizations in their march towards e-procurement systems.

(a) Legal and procedural framework

This is an indispensable principle highlighted by some organizations and which devolves to the United Nations to address, with inputs as necessary from other organizations in the context of their particular characteristics.

(b) Consultative, cooperative and coordinated approach

The organizations should continue to use their IAPWG forum to tighten collaboration and synchronize their efforts in this area, building on IAPSO's experience, on the findings of the CRiSPS report and of the present JIU report. WHO, which is adapting, at relatively modest cost, IAPSO's UNWebBuy for its e-commerce solution, could for example share its lessons learned in this respect with other members of IAPWG who might wish to do likewise, to prevent costly reinvention of wheels by IAPWG members. Moreover, IAPSO could additionally be enabled to sharpen its expertise in e-procurement and make it available at low cost to other members of IAPWG, at least in order to preclude recourse to expensive external consultants.

(c) Budget control

Thanks to the systematic collaboration and sharing of experiences, it should be possible for the organizations to develop cost benchmarks for e-procurement systems thereby ensuring rational and prudent use of resources.

(d) Avoid a "big-bang" approach

This is one of the main recommendations of the CRiSPS report, which the Inspector considers highly pertinent. The report found that e-procurement was being implemented incrementally in a modular way, which the authors considered more likely to succeed than a "big-bang" approach. The report also referred to international experience, which found that incremental approaches were yielding more benefits and that "big-bang" implementation was failing. By such an incremental approach, the organizations should aim to fully automate their procurement services over the next five years or so, using the target date of 2010.

(e) Training and retraining of staff

The success of e-procurement projects would depend to a very large extent on the relevant capabilities and skills of the staff involved in their implementation and continuation, and that implies allocation of adequate resources for staff training in order to build a whole new professional outlook and skill set indispensable to the efficient operation of e-commerce platforms.

84. The Inspector therefore recommends that these five basic principles, which are not exhaustive, should guide the United Nations procurement system in the development of e-procurement solutions.

85. While the application of ICT systems to the procurement process should certainly bring multiple benefits as summarized above, the organizations also have a mandate to strengthen public procurement capacities in the recipient countries so as to enable them to perform direct procurement operations. Thus, enhancing expertise within the organizations in e-procurement systems and operations should equip procurement officials with additional knowledge and skills needed to boost similar capacities in the recipient countries, as explained below.

VI. CAPACITY-BUILDING

A. The problem

86. On the basis of available information, it seems that the organizations are yet to grasp the importance of procurement as a development tool in the recipient client countries. The problem is essentially two-fold: lack of affirmative procurement actions in favour of recipient countries and institutions, and the organizations' very limited public procurement capacity-building projects in those countries.

87. First, only in limited cases do the organizations consciously source goods and services from the developing regions with a view to stimulating local economies by, among other things, helping directly or indirectly to strengthen local suppliers. One case that caught the Inspector's attention concerns UNHCR's procurement guidelines for its Implementing Partners requiring that the economies of refugee-hosting countries be supported by giving preference to local procurement of supplies and services readily available locally and in the quality required at competitive prices. UNDP in the past also applied a monetary preference of 15 per cent for suppliers from developing countries and countries with economies in transition, but the practice was discontinued by a decision of its Executive Board. UNDP currently encourages procurement from those countries by decentralizing procurement operations to its field offices, especially for in-country and in-region procurement supportive of direct execution and national execution modalities implemented mostly through these offices. It would seem that UNESCO also gives preferential treatment to local sourcing as deliberate policy.

88. In reporting such practices in his 2000 report on procurement reform,[43] the Secretary-General noted that only UNESCO and UNHCR practise some form of preferential treatment in their procurement activities. UNESCO apparently allows a 10 per cent preference in favour of locally produced goods where local warranty is required. The Secretary-General concluded that, in accordance with the financial rules, the awarding of contracts in the Secretariat is based on the lowest acceptable bid in order to ensure the best use of the Organization's resources, and that all valid bids, regardless of origin, are considered and evaluated for best offer without prejudice or preference.

89. The problem therefore lies in procurement and financial regulations and rules, which allow for no affirmative procurement actions in favour of the developing countries even though some of the Organization's Member States promote such policies in their domestic domain for the benefit of disadvantaged population segments, such as women and minority groups.

90. At the 28th IAPWG meeting in 2003, the World Bank Group representative gave a presentation on "Supplier diversity as a tool for economic development", a concept which apparently originated in 1968 in the United States marketplace as a federal government initiative designed to enhance government purchases from socially and economically disadvantaged owners of small businesses. The World Bank Group apparently applies this concept to its corporate procurement operations with a view to: increasing job creation opportunities, increasing income for minority groups, building capacity in all categories of expenditure, advancing economic opportunities and development.[44]

91. Implementation of this concept by the United Nations system could take more than one form. For example, the organizations could require their suppliers in the more developed countries to use subcontractors in the recipient countries whenever feasible and appropriate and the ability of firms to do so would be reflected as a positive factor in evaluating them for future procurement business.

92. The second dimension of the problem concerns the organizations' lack of a coherent technical assistance strategy and programme for enhancing the technical and regulatory capacities of public procurement agencies in the recipient countries. Current business seminars by UNPD and training initiatives

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[43] A/55/127 of 10 July 2000, paragraph 26.

[44] Therese Ballard, "Supplier Diversity – A tool for economic development", presentation at 28th IAPWG meeting, Warsaw, May 2003.

by IAPSO are patently inadequate relative to the task at hand. The Inspector observes moreover that the organizations currently do not have enough resources for the training of their own procurement staff, as noted in chapter III. Some authors[45] estimate the size of public procurement to represent an average of 10 per cent of a country's GDP, the percentage for Uganda being about twice that in 1997, and believe that strengthening public procurement institutions in the developing countries can bring significant economic benefits, besides fostering transparent systems of accountability. This is an area in which the World Bank and the Organisation for Economic Cooperation and Development (OECD) are heavily engaged, among others. The Bank publishes periodic Country Procurement Assessment Reports available on its web site and, as earlier noted, promotes e-commerce platforms in public procurement agencies in the recipient countries.

B. New direction

93. The growing need to provide technical support to public procurement institutions in the recipient countries in order to enable them to perform direct local and international procurement and use scarce public funds efficiently is partly linked to the fact that transparency in government procurement is now on the Doha Development Agenda of the Fourth World Trade Organization Ministerial Conference, as one of the so-called "Singapore issues". The implication is that the issue will continue to grow in importance, thereby providing the United Nations system with an opportunity to design a common technical assistance strategy and programme directed at public procurement capacity-building in the developing countries, with an important e-government procurement component. Such an initiative would be timely in complementing ongoing work in this area by the multilateral financial institutions, OECD and other donors.

[45] For example, Walter Odhiambo and Paul Kamau, "Public procurement: Lessons from Kenya, Tanzania and Uganda", OECD Development Centre, March 2003.